The Alberta Capital Market: A Comparative Overview

March 2004

Prepared by the Office of the General Counsel

ASC

Alberta Securities Commission

INTRODUCTION

Approximately one year ago, the Alberta Securities Commission (ASC) decided to undertake a review of Alberta's capital market. This research project, the Alberta Capital Market Project, is intended to focus and enhance the regulatory efforts of the ASC by allowing the ASC to acquire better insights into the capital market it regulates. The information gathered will be used to help identify priorities for the ASC and provide background information for other projects and rules, including those relating to continuous disclosure, corporate governance, proportionate regulation, prospectuses and capital raising in the exempt market.

This report represents the first portion of the Alberta Capital Market Project. This portion consists of an overview of issuers listed on the Toronto Stock Exchange (TSX) - Canada's senior equities market - and the TSX Venture Exchange (TSXV) - Canada's junior equities market. The report reviews the number, size (by market capital) and industry classifications of "public companies" that is, corporations, limited partnerships and income trusts, with publicly listed securities on these two exchanges. It also reviews Alberta's market relative to the markets in British Columbia, Ontario and Quebéc. The report focuses on these four provinces as public companies based in these jurisdictions represent 92% of all public companies listed on the two exchanges and 83% of the aggregate market capital of companies listed on those exchanges.

EXECUTIVE SUMMARY

Through the examination of information respecting public companies listed on the TSX and TSXV, the following findings were made and conclusions drawn:

- Canadian based issuers represent approximately 96% of the companies listed on the two exchanges and 88.5% of the aggregate market capital of public companies.
- The largest provincial markets are Ontario (45%), Alberta (18%), Quebéc (14%), and British Columbia (5%).
- Alberta's market has a significant position within the Canadian capital markets. The size of the Alberta market would suggest that it is appropriate for the ASC to take an active role in the development of securities policy in Canada.
    - Alberta's capital market is second only to Ontario's in terms of aggregate public company market capital.
    - Alberta has the second largest number of TSX listed companies, after Ontario, and the second largest number of TSXV listed companies, after British Columbia.
- Alberta's public equities market is a tiered market with a large number of small companies but also a significant number of mid-size and very large companies. Although Alberta has roughly twice as many public companies on the TSXV as it has on the TSX, the aggregate market capital of the TSX listed companies represents 98% of the total market capital of Alberta based public companies.
- Canada's public equities market is also a tiered market. It would be appropriate for Canadian securities regulators, in developing securities policy, to consider the tiered nature of the market and the suitability of proportionate regulation.

- Based on aggregate market capital, the oil & gas industry is the third most significant industry in Canada (after financial services and industrial/manufacturing); however, it is the most significant industry in Alberta. Forty-one percent of Alberta based public companies are engaged in oil & gas (43%, if utilities and pipeline companies are included). Further, oil & gas public companies represent 63% of the aggregate market capital in Alberta (77% including utilities and pipeline companies). In contrast 12% of all public companies listed in Canada, representing 20% of the aggregate market capital are engaged in the oil & gas industry.

- Based on numbers of public companies, the mining industry is quite significant within Canada, representing 32% of the public companies, although only 10% of the aggregate market capital. In comparison, the mining industry is less significant in Alberta, representing only 11% of Alberta based public companies and less than 2% of the aggregate market capital.

- Alberta's public equities market is quite distinct from other provincial markets. In fact, each of the provincial markets is distinct from each other. For example:

    - Although Alberta and British Columbia are both known for having strong junior markets, unlike British Columbia, Alberta also has a strong senior market. The aggregate market capital of Alberta based public companies is more than three times larger than that of British Columbia based public companies.

    - Alberta and British Columbia are also quite different with respect to the types of public companies. The principal industry classifications of Alberta's public companies are oil & gas, followed by industrial/manufacturing. In comparison, British Columbia's principal industries are mining and technology. Those industries combined, represent only 2% of the aggregate market capital of Alberta public companies.

    - With 14% of the aggregate market capital of public companies, Quebéc has a lower aggregate market capital than Alberta; however, Quebéc public companies have a much higher average market capital - indicating fewer, but larger companies. Although both Quebéc and Alberta public companies have a significant representation in the industrial category, the oil and gas industry has virtually no representation in Quebéc. Instead, Quebec has a significant number of public companies engaged in the mining sector.

    - Ontario and Alberta have a similar number of junior public companies listed on the TSXV; however, Ontario has more very large public companies and consequently, a larger aggregate market capital than Alberta. The most significant industries among Ontario public companies are financial services and mining. Alberta's primary industry, oil & gas, forms a comparatively small part of Ontario's capital market.

METHODOLOGY

All of the information presented in this part of the Alberta Capital Market Project has been derived from comprehensive spreadsheets provided by TSX Group Inc.[1] The spreadsheets contain key information respecting every public company listed on either of the two exchanges.

[1] TSX Group Inc. has not reviewed or endorsed this report.

The TSX information is provided as of August 30, 2003 and the TSXV information is provided as of September 30, 2003.

The TSXV typically calculates market capitalization by multiplying outstanding shares by market price but then excludes escrowed shares from the total. The TSX does not exclude escrowed shares. To facilitate comparison, we have included escrowed shares in calculating the market capitalization for TSXV listed companies. Accordingly, the market capital figures we have reported for the TSXV likely will be somewhat larger than is typically reported by that exchange.

The compiled information does not take into account reporting issuers that are not listed on an exchange. In addition, companies that were halted or suspended from trading on either of the exchanges have not been included unless the relevant stock traded at some time during 2003.

FINDINGS

International Representation in the Canadian Capital Market

Table A below provides an indication of the degree to which international public companies are represented in the Canadian capital market. Canadian-based public companies represent approximately 88.5% of the aggregate $1.17 trillion of the market capital and 96% of the head offices of public companies listed on the TSX and TSXV. Foreign public companies represent only 11.5% of the aggregate capital market on the two exchanges, with the United States and United Kingdom having the largest representation at 6% and 5%, respectively.

	Number of Public Companies	Total Market Capital ($)
Australia	7	21,308,677
Austria	1	257,140
Canada	3,466	1,033,541,362,451
Caribbean[2]	8	466,783,074
China	3	11,069,969
France	1	16,968,128
Israel	1	8,105,593
Japan	1	5,432,018,790
Mexico	1	46,741,205
South Africa	2	92,018,284
Spain	1	246,647,320
Sweden	1	304,631,315
Taiwan	1	0[3]
UK	15	62,417,358,773
USA	102	65,296,400,922
Total	3611	1,167,901,671,642

Table A

[2] Public companies based in Anguilla, Bahamas, Barbados, Bermuda and Grand Cayman are grouped together in the larger Caribbean region.

[3] A market capital value of 0 indicates that trading in the securities of the issuer in question has been halted.

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The following ***chart 1*** illustrates the comparative distribution of market capital attributed to foreign public companies on the TSX and TSXV. Virtually all foreign market capital is found at the TSX level (99%).

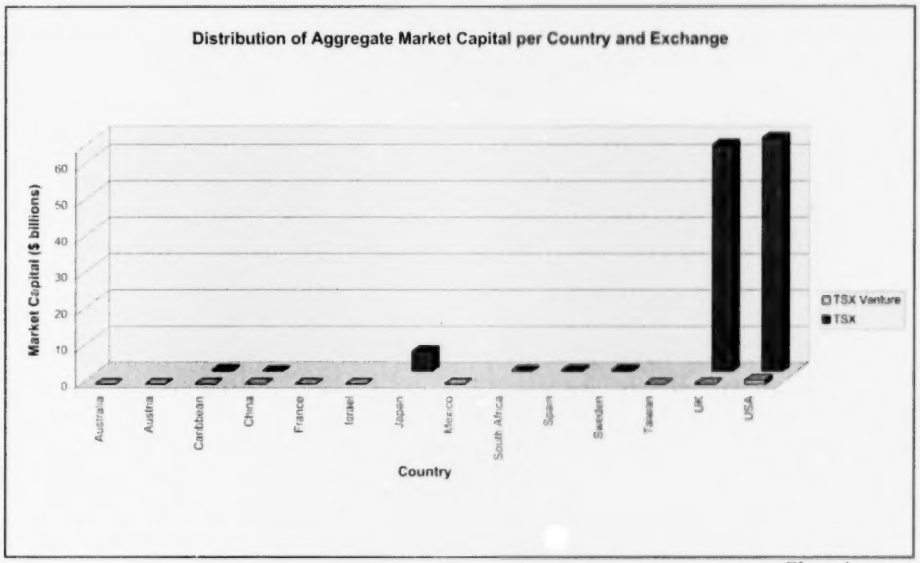

Chart 1

Provincial Representation in the Canadian Capital Market

The distribution of market capital represented by provincial markets is illustrated in ***chart 2***. Ontario has the largest aggregate market capital ($531 billion or 45%) followed by Alberta ($210 billion or 18%) and Quebéc ($167 billion or 14%). The aggregate market capital in British Columbia is $64 billion or 5%. Together, these four provinces represent 83% of the aggregate market capital in Canada.

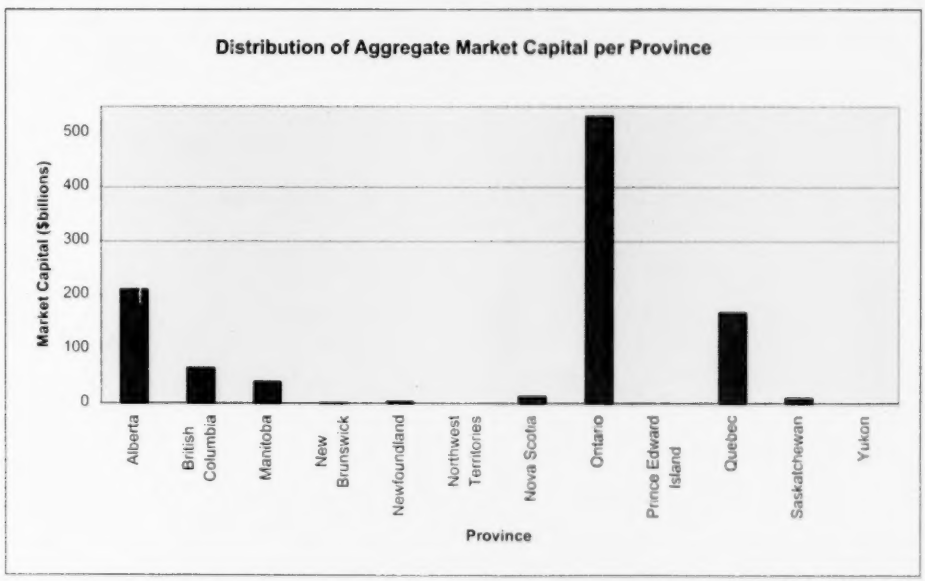

Chart 2

Chart 3 illustrates that these four provinces are also home to 92% or 3,339 of the total 3,611 public companies listed on the two exchanges.

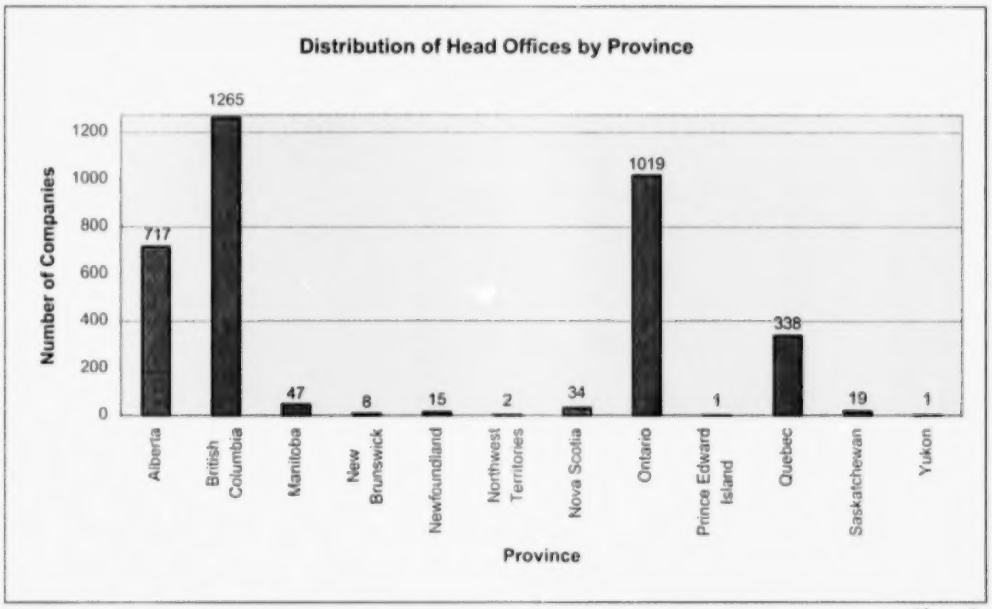

Chart 3

The comparative representation of public companies on the TSX and TSXV in each of Alberta, British Columbia, Ontario and Quebéc is demonstrated in ***chart 4***. Alberta has the second largest number of companies listed on both exchanges following Ontario on the TSX and British Columbia on the TSXV.

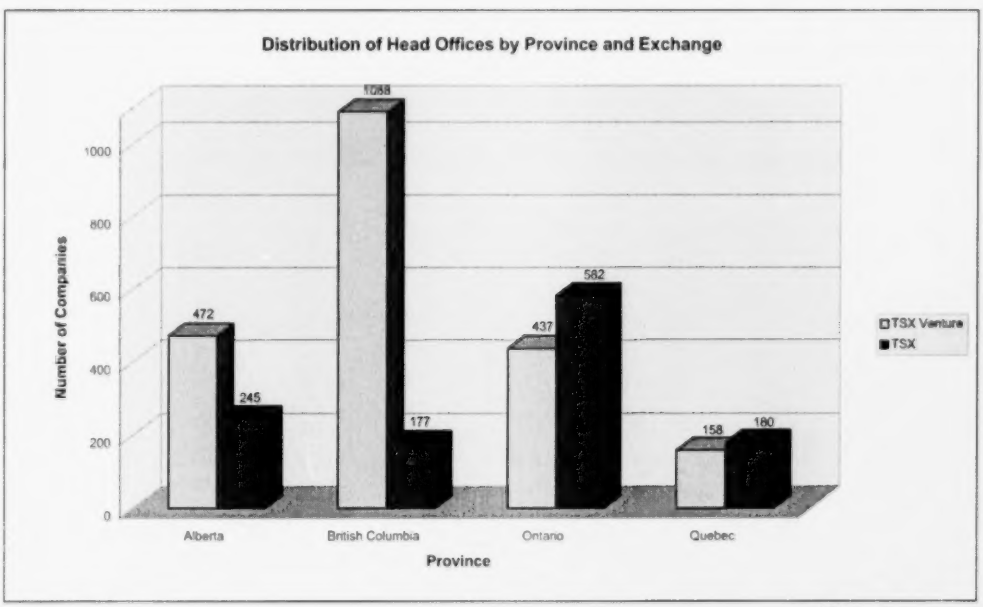

Chart 4

Viewing ***chart 4*** and ***chart 5*** together shows that out of the four provinces, British Columbia has the largest number of head offices and yet the smallest aggregate market capital. Although

Alberta has less than half the number of head offices as British Columbia, the aggregate market capital of those Alberta public companies is more than three times larger than the British Columbia companies, placing Alberta second in Canada behind Ontario for aggregate market capital.

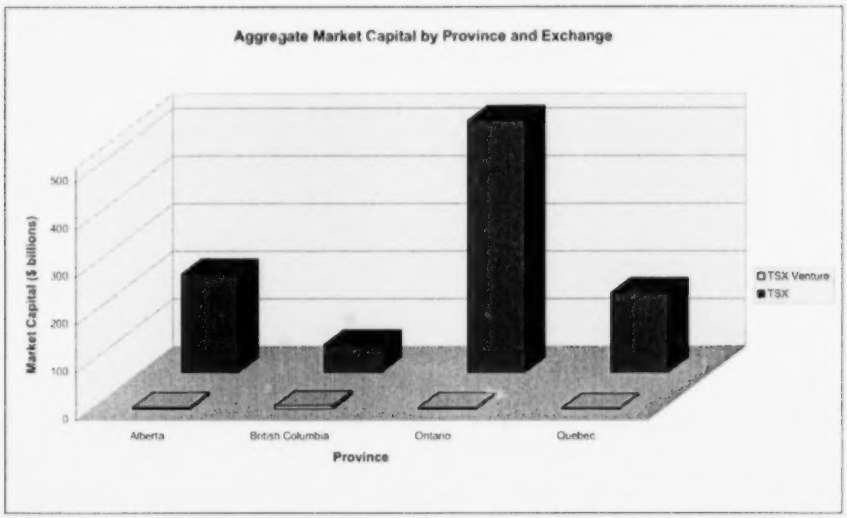

Chart 5

Based on market capital, ***chart 6*** illustrates that Alberta and Ontario have nearly identical representation on the TSXV. Further, Alberta's representation on the TSX is similar to Ontario's although proportionately smaller. Chart 6 also shows that the capital market structure (i.e., the representation of different sizes of public companies) on the two exchanges is quite different as between Alberta and British Columbia. British Columbia has over 700 companies listed on the TSXV that have market capital of less than $5 million. Alberta has less than 300 companies in that category. Conversely, Alberta has almost 200 companies listed on the TSX each with market capital over $25 million, whereas British Columbia has just over 100 public companies in that category.

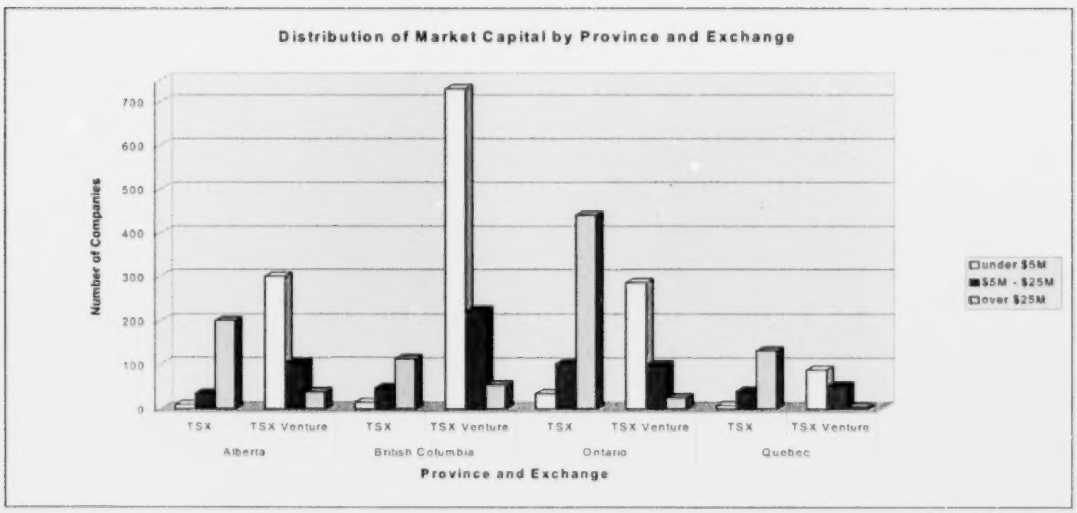

Chart 6

Chart 6 and ***chart 7*** indicate that Alberta is second only to Ontario with respect to the number of public companies with market capital over $25 million (239 and 465, respectively). The majority (62%) of British Columbia's capital market is made up of companies with less than $5 million in market capital. Companies with market capital of less than $5 million represent only 45% of Alberta's capital market, 32% of Ontario's capital market and 29% of Quebéc's capital market. All ranges of market capital have relatively equal representation in Alberta's capital market; with public companies in the $1 million - $5 million range having the highest representation at 27% and the $25 million-$100 million range having the lowest at 15% of the market. Interestingly, Alberta has a higher percentage of public companies with over $100 million market capital (19%) than it has public companies with under $1 million (17.5%). This can be contrasted with British Columbia which has five times more public companies in the under $1 million range (25%) than it has in the over $100 million range (5%).

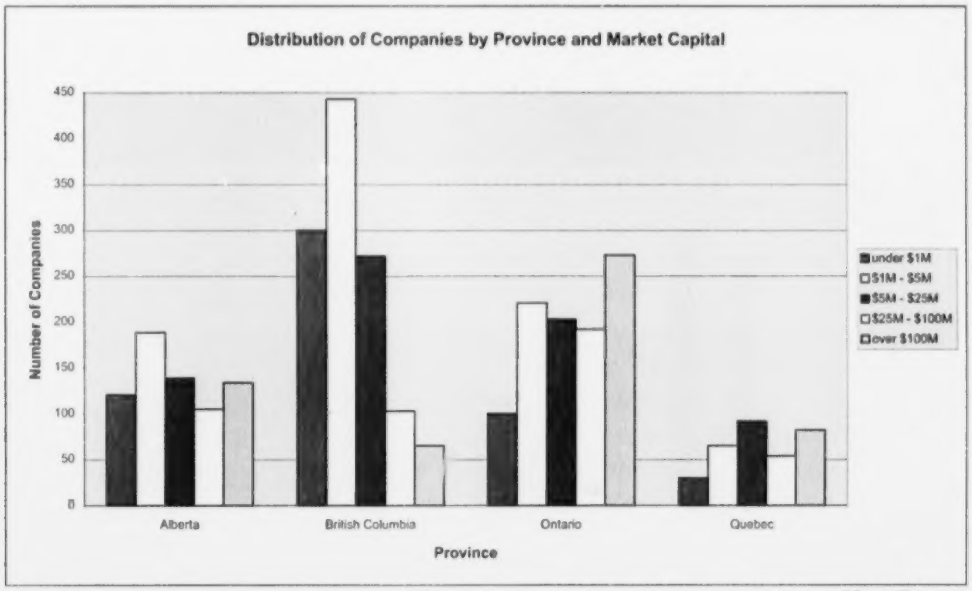

Chart 7

Major Industries in the Canadian Capital Market

The Canadian capital market is primarily represented by six major industries; financial services, industrial/manufacturing, oil & gas, mining, communications (which includes media and business services) and technology. ***Chart 8*** illustrates the relative percentages of public companies engaged in each industry as compared with the percentage of market capital associated with each industry. Based on market capital, the most significant industries are financial services, industrial/manufacturing and oil & gas. In contrast, based on number of public companies, the most significant industries are mining, industrial/manufacturing and technology. The oil & gas industry ranks fourth and financial services ranks fifth in number of public companies.

Note that of the six major industries, mining and technology companies tend to be significantly smaller than those engaged in financial services, communications, oil & gas and industry/manufacturing. For example, chart 8 indicates that mining companies represent 32% of all public companies in Canada, but only 10% of the market capital. Conversely, oil & gas companies while representing only 12% of the public companies make up 20% of the aggregate Canadian market capital.

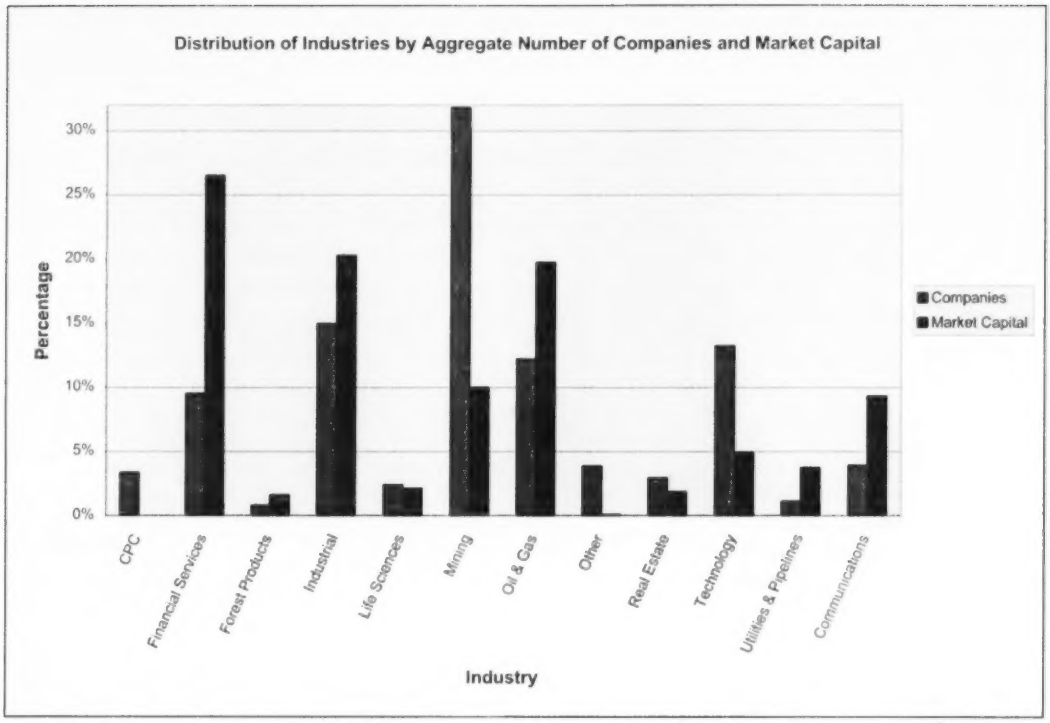

Chart 8

As illustrated in ***chart 9*** and further detailed in ***chart 10***, public companies engaged in the mining industry are generally small, with under $5 million in market capital. However, mining is also fairly well represented in the $5 million to $100 million range, particularly $5 million to $25 million. In contrast, the oil & gas industry is equally represented in all classifications of market capital, including the over $100 million market capital class.

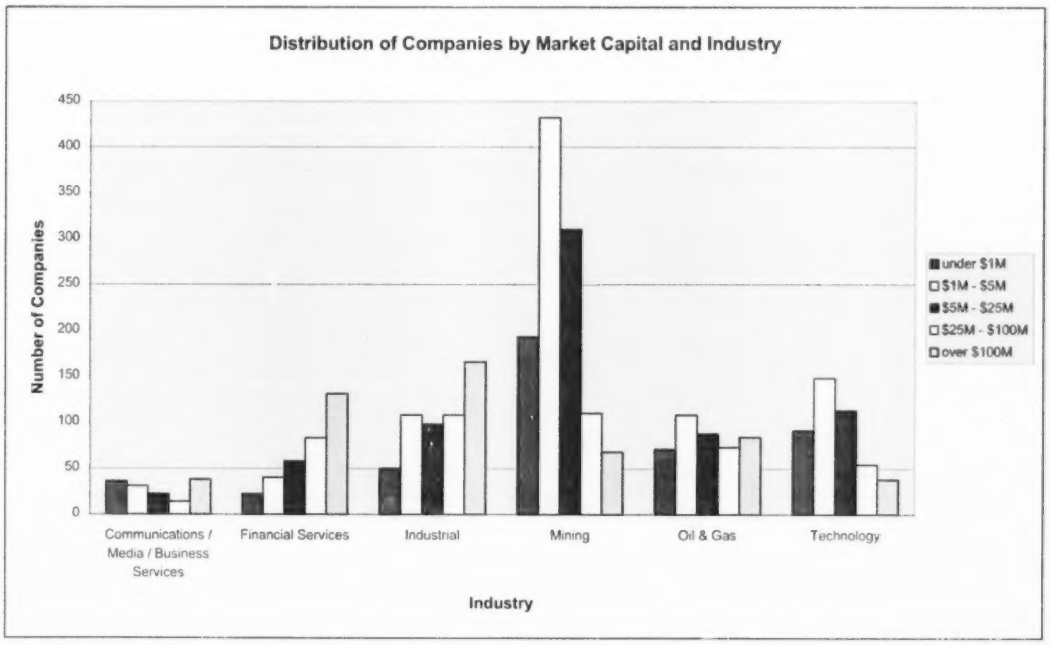

Chart 9

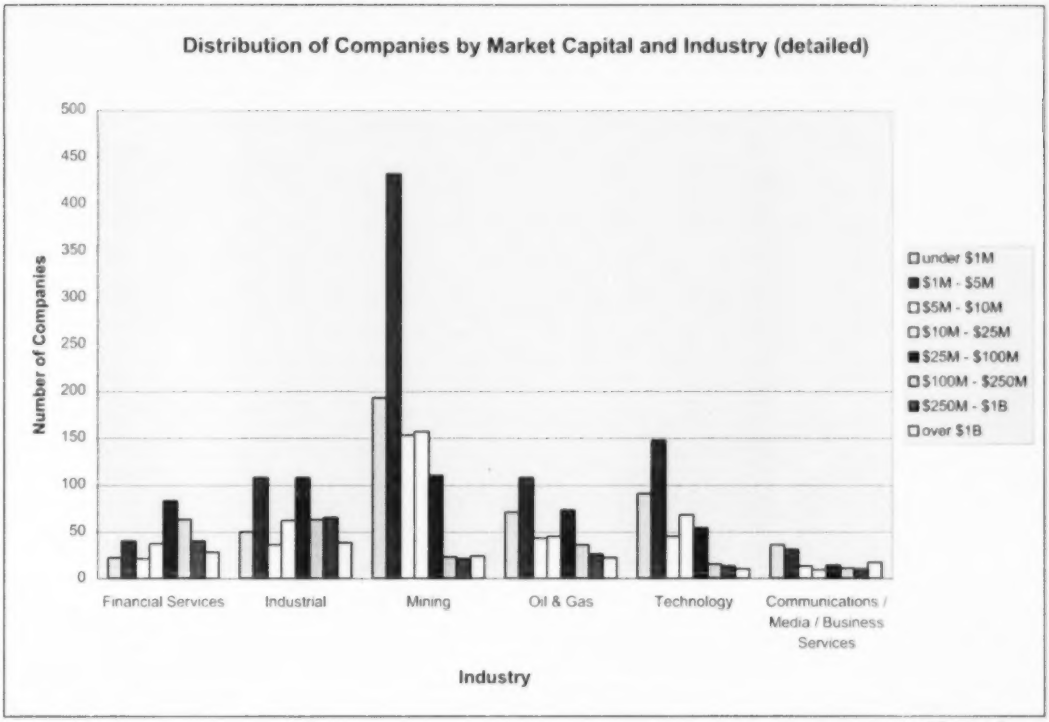

Chart 10

Chart 11 provides a closer look at the distribution of the major industries in the four major Canadian capital markets. The primary industries in each of the jurisdictions are: Alberta - oil & gas followed by industrial; British Columbia - mining followed by technology; Ontario - financial services, mining and industrial; and Quebec - industrial and mining.

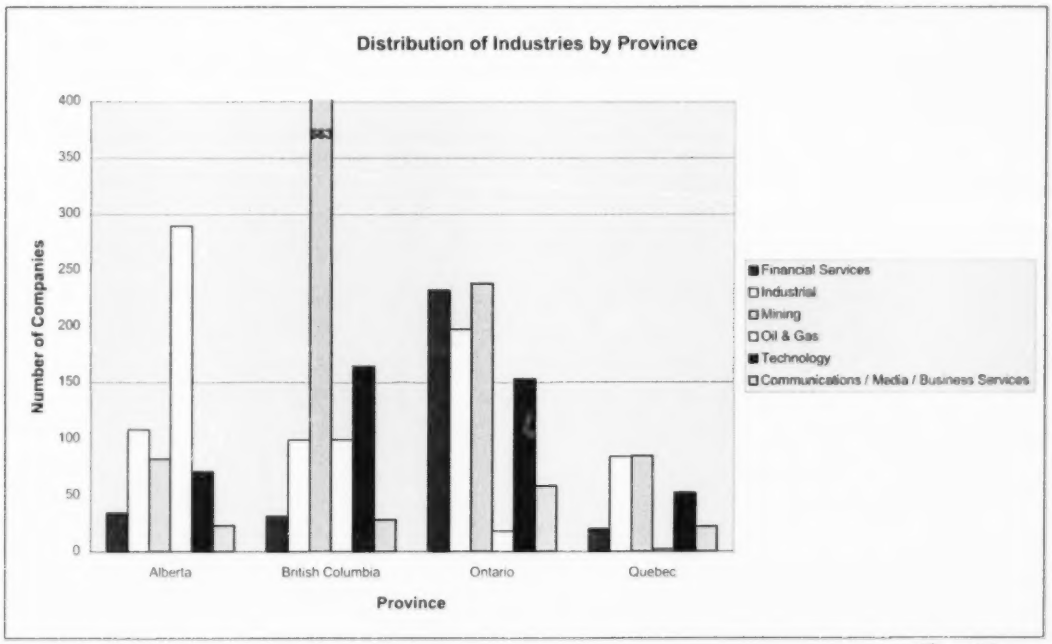

Chart 11

Looking at the information in ***charts 8*** through ***11***, we note that British Columbia, with the largest number of head offices and the smallest aggregate market capital, has quite a unique capital market. It has a disproportionately high number of very small companies. Further, British Columbia's major industries - mining and technology - represent the smallest companies in the six major industrial classifications. In comparison, Alberta's oil & gas and industrial companies tend to be larger in size.

Alberta's Capital Market

The industry classifications of Alberta based public companies listed on the TSX and TSXV are set out in ***chart 12***. Based on numbers of companies, the principal industries in which Alberta-based public companies are engaged are oil & gas (40%), industrial (15%), mining (11%) and technology (10%).

If we compare the Alberta based companies listed on the two exchanges we note that there are significantly more mining and technology companies on the TSXV than the TSX (94% and 87%, respectively). However, there are only 25% more oil & gas listings on the TSXV than on the TSX. Industrial companies actually have slightly more public companies listed on the TSX than the TSXV.

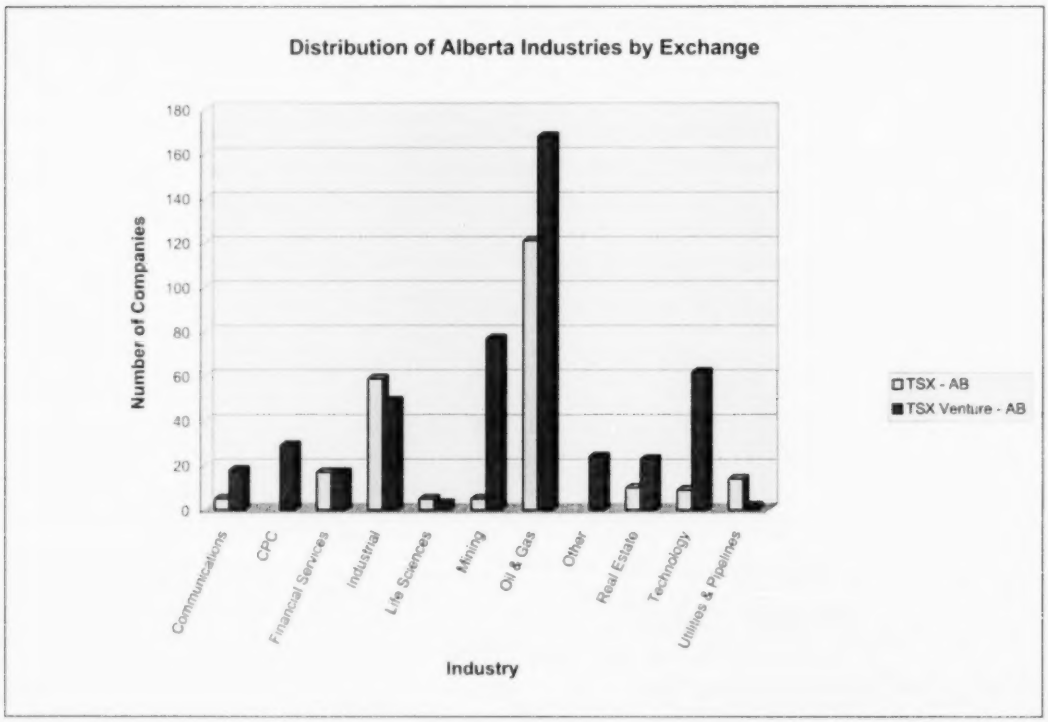

Chart 12

Contrasting numbers of public companies with aggregate market capital (see ***chart 13***), mining and technology companies represent 21% of the number of Alberta based public companies but only 2% of Alberta's capital market. The oil & gas and utilities and pipelines industries represent 43% of the number of Alberta public companies and 77% of the aggregate Alberta market capital.

The aggregate market capital of the oil & gas industry in Alberta is more than four times larger than the aggregate market capital of industrial public companies ($132 billion versus $30 billion) as illustrated in ***chart 13***.

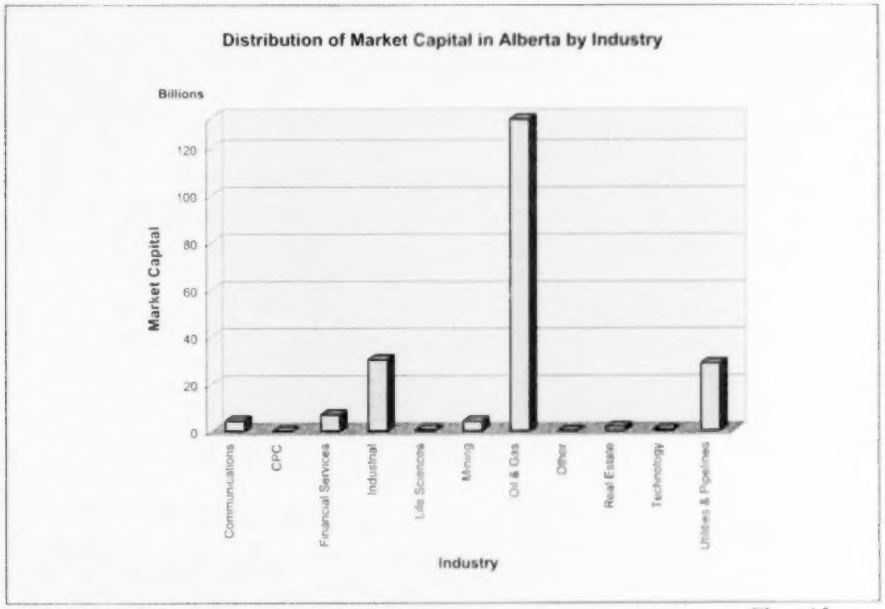

Chart 13

As would be expected, and as illustrated in ***chart 14***, significantly more public companies with market capital under $25 million are listed on the TSXV than the TSX. The reverse is also true for public companies with over $25 million market capital. The largest proportion of Alberta based TSXV listed companies are in the $1 million to $5 million range; however, there are also a significant percentage in the under $1 million range. In comparison, the largest proportion of TSX listed companies is represented in the $25 million to $100 million market capital range. However, there is also significant representation from $100 million to $1 billion.

Chart 14

Chart 15 shows the industries of Alberta based public companies and the market capital ranges of companies engaged in each of the industries. Interestingly, the number of oil & gas companies increases in correlation with increases in market capital ranges; there are exactly twice as many oil & gas public companies in Alberta with market capital of over $100 million than there are public companies with market capital under $1 million. The industrial category is relatively equally represented in all market capital ranges, while 44% of Alberta's mining companies and 68% of technology companies have market capital of under $5 million.

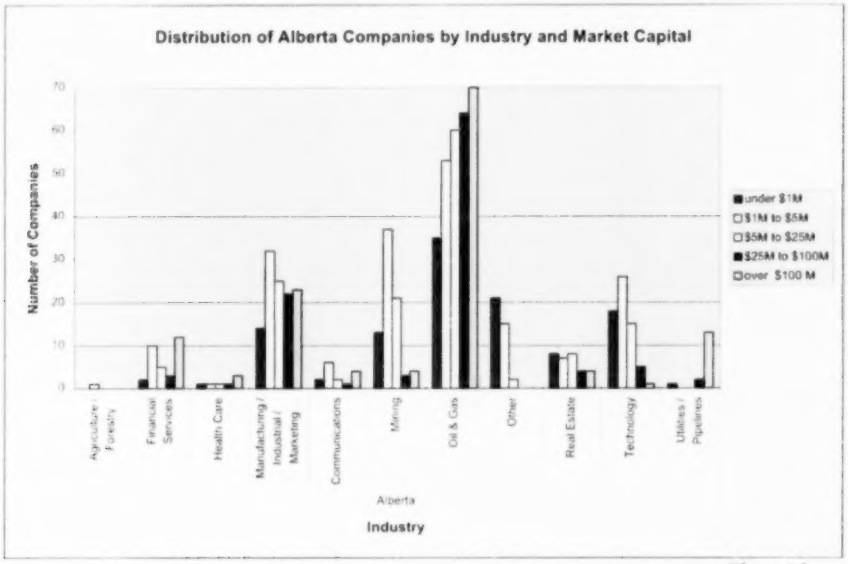

Chart 15

CONCLUSIONS

There are three main conclusions that may be drawn from the findings:

1. The Canadian capital market is made up of very distinct provincial capital markets, each of which may bring a unique perspective that should be considered by the Canadian Securities Administrators (CSA) in policy formulation.

2. Because the capital markets in Alberta and Canada are very clearly tiered markets, the ASC and the CSA should continue investigating avenues where proportionate regulation might be appropriate.

3. The prominent position of Alberta's capital market in the overall Canadian capital market - being second only to Ontario in terms of aggregate market capital - supports the ASC playing a very active role in policy development and other initiatives within the CSA.

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